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DE RUEHEK #0319/01 0971325

ZNY CCCCC ZZH  
R 071325Z APR 09  
FM AMEMBASSY BISHKEK  
TO RUEHC/SECSTATE WASHDC 2060  
INFO RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE  
RUCNCIS/CIS COLLECTIVE  
RUEHBJ/AMEMBASSY BEIJING 3026  
RHEFDIA/DIA WASHDC  
RUEKJCS/OSD WASHDC  
RUEAIIA/CIA WASHDC  
RHEHNSC/NSC WASHDC  
RUEKJCS/SECDEF WASHDC  
RUEKJCS/Joint STAFF WASHDC  
RUEHGV/USMISSION GENEVA 1323  
RUEHVEN/USMISSION USOSCE 3366  
RUCNDT/USMISSION USUN NEW YORK 2752  
RUEHNO/USMISSION USNATO BRUSSELS BE  
RUEHBS/USEU BRUSSELS  
RUEHLMC/MILLENNIUM CHALLENGE CORP  
RUMICEA/USCENTCOM INTEL CEN MACDILL AFB FL

C O N F I D E N T I A L SECTION 01 OF 02 BISHKEK 000319

SIPDIS

DEPT FOR SCA/CEN (GORKOWSKI)  
TREASURY FOR LAWRENCE NORTON

E.O. 12958: DECL: 04/07/2019  
TAGS: ECON PGOV EFIN SOCI KG  
SUBJECT: WILL RUSSIAN AID PROMOTE KYRGYZ STABILITY?

REF: A. BISHKEK 170  
1B. BISHKEK 152

BISHKEK 00000319 001.2 OF 002

Classified By: Deputy Chief of Mission Lee Litzenberger, Reason 1.4 (b) and (d).

¶1. (C) Summary: In early April, the Kyrgyz Central Bank received \$150 million in aid Moscow pledged to Bishkek in early February. These funds are expected to fill holes in the Kyrgyz budget, and Kyrgyz officials are debating how to manage a \$300 million low interest rate loan which Bishkek anticipates should arrive later in April. The local IMF representative told Embassy that, with the arrival of the Russian funds, the Kyrgyz government's fiscal situation should ease, and that the Kyrgyz banking system is weathering global financial turmoil fairly well. Kyrgyz economic growth is expected to be marginal, if positive at all in 2009. However, with \$150 million in Russian aid flowing into the budget, there are concerns that some spending could be directed to boosting President Bakiyev's electoral prospects in the July 23 presidential election. End summary.

First Tranche of Russian Funds Arrives

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¶2. (U) At the beginning of April, the Kyrgyz Central Bank received \$150 million in financial aid Russian President Dmitriy Medvedev pledged to Kyrgyz President Kurmanbek Bakiyev in Moscow in early February. Kyrgyz officials indicated that the additional Russian pledge of a low interest \$300 million loan should materialize later in April. However, there has been limited mention of a promised Russian loan for the Kambarata hydroelectric station, and observers are speculating that the \$1.7 billion construction loan may not be released due to economic conditions in Russia.

¶3. (C) The local International Monetary Fund (IMF) Representative told Emboff April 1 that the Kyrgyz plan to plug widening holes in the 2009 government budget with

Russia's \$150 million grant. An additional \$15 million (presumably from the \$300 million loan) is to be allocated to the Kyrgyz Development Fund. Kyrgyz officials are debating how to manage the rest of the \$300 million loan. The Kyrgyz Ministry of Economic Development and Trade has suggested creation of an investment bank, whereas other officials have suggested using the funds for development projects or keeping it on deposit at the Central Bank.

#### Economic and Financial Situation Relatively Stable

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¶4. (C) If used to cover budget gaps, the Russian aid should permit the Kyrgyz government to sustain current spending patterns, and may constitute the main source of new revenue for a revised budget, which is expected in May. However, the IMF representative told Emboff that Kyrgyz gross domestic product growth would likely be marginal, if positive at all, this year. He added that despite troubles among Kazakh banks and their Kyrgyz subsidiaries, the Kyrgyz financial system is weathering current global financial troubles fairly well. Following a significant loss of value in 2008 against the dollar, the Kyrgyz som has lost only about 5% of its value against the dollar so far in 2009. The Central Bank, the IMF representative noted, has \$1 billion in reserves to use in maintaining the Kyrgyz som's value against the dollar, but added that many financial institutions are stockpiling dollar-denominated assets. Despite reporting from other banking sector insiders to the contrary, the representative did not detect any significant decrease in remittances from the estimated one million Kyrgyz working largely in Russia and Kazakhstan.

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#### Comment

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¶5. (C) Although recent reports indicate that nearly 40% of the population lives in poverty and the local economic situation is less than ideal, the Kyrgyz Republic does seem to have dodged the worst of the global economic and financial difficulties. The \$150 million Russian grant, which Kyrgyz and Russian officials have contended lacked any conditionality, has spared the Kyrgyz government from deciding whether to cut spending, rescind recent tax cuts or raid Central Bank assets for needed funds. The \$150 million grant should also allow the Administration to focus on President Bakiyev's reelection campaign. However, there are still concerns that even if the \$150 million supports the budget, some spending may be directed towards boosting Bakiyev's electoral fortunes. The election is scheduled for July 23 -- a little more than three months away.

GFOELLER